

Getting the Black Market to Knock It Off:

Strategies to Enforce Trademark Rights in Asia

© May 2006

Matthew A. Powelson (LaRiviere, Grubman & Payne LLP- Monterey CA)

Grace Li (Kangxin Partners- Beijing, P.R. China)

Edward J Kelly (Tilleke & Gibbins International Ltd.- Bangkok Thailand)

Intellectual property rights owners are regularly and increasingly feeling the pressure and economic pain of the loss of revenue due to competition from black market counterfeit goods invading the global market. Further, our global society suffers the physical and emotional pain of countless people and children who are slaves to either the criminal black marketers or the victims of their faulty products. The problem is economic and social.

The authors of this article collectively represent a number of significant US trademark owners in the fight against the economic and social impacts of the global black market economy. Most of these trademark owners also have intellectual property rights portfolios that include patents and copyrights. However, given the need to move quickly in enforcement efforts, the comparative ease of identifying branded goods as compared to infringed patent claims, and the longer time needed to typically obtain patent rights, many companies rely in the early going of the fight exclusively on trademark protection to enforce their rights. In fact, as you will read below, trademark rights are the fundamental basis for the overwhelming majority of cases where Chinese customs officials seize goods.

In April 2006, the authors were privileged to address members of the State Bar of California at conferences held in San Francisco and Marina Del Rey, respectively, to present a primer on two countries historically seen as representing the front lines in most trademark owners' battles against the counterfeit trade: China and Thailand. The historical, cultural, and geographic perspectives coupled with the gum shoe and legal strategy recommendations in this article are taken from our collective and cooperative experiences together in the enforcement of our clients' intellectual property rights in Asia. Our experience among industries and products includes electronics, clothing and apparel, pharmaceutical, automotive, entertainment, music, and cosmetics, to name a few.

This article contains two parts: Part I focuses on China and Part II focuses on Thailand. There are both striking similarities and differences between the cultures, geographies, legal systems, and black market economies of these two countries. Regardless, each plays a strong role in the global black market economy and although

possible, one can rarely be viewed in isolation to be effective as far as enforcement is concerned. The necessary differences in the two parts featured below stem from the dominant differences in the black market economies of each country. China is typically the most dominant source of illegal manufacture and Thailand is typically the most dominant choke point for illegal transshipment.

The traditional notions the modern black market economy consisting of knock off products such as clothing, electronics, and pharmaceuticals is justified by merely the proliferation of these illegal items flooding markets around the world, whether they be informal street markets, entire black market brick and mortar shopping malls, or through web based retailers of knock off products. The matter is complicated further by the vast amount of hybrid situations where the problem may not be a pure black marketer completely unrelated to the brand owner but may be the brand owner's own manufacturer or distributor.¹ There is no single battle front, either by country or by the type of target. Our client's are routinely fighting battles on multiple fronts at any one time and may include the following all too common problems:

- 1) investigating, identifying, and enforcing trademark rights against the manufacture and distribution of an unknown source of knock off goods (sometimes the workmanship represented in the knock off goods is insultingly poor and sometimes exceptionally good);
- 2) enforcing trademark and contractual rights against a renegade authorized distributor who has been "helpful" to the trademark owner by registering the owner's marks in the local country and has begun to import knock off products at lower margins while "owning" the trademark registrations in the local country and hijacking the mark from the rightful owner; and
- 3) enforcing trademark and contractual rights against the client's own manufacturer who keeps the manufacturing line rolling 24/7/365, despite the fact that the trademark owner's requested production quantities are met by the 20th of each month, and ships the additional product out to black market buyers.

Traffic in black market counterfeit goods is a serious and growing threat to the economies of many countries around the world, including of course the United States, the world's largest producer, consumer and exporter of intellectual property.

Suppressing Demand: Counterfeiting is not a victimless crime

Consumer demand for cheap knock-offs is the root of the problem, a very difficult root to cut out entirely. In developing countries, the argument is often made that it is difficult to criticize a poor person who buys a fake handbag or polo shirt when he/she is targeted with sophisticated advertisements to the effect that one's social status is

¹ For this reason, we do not take effort here to distinguish black markets from grey markets and other types of illegally produced goods.

dependent on the brand of accessory or clothing one wears. When self-esteem is linked to branding, it seems harsh to judge the person who cannot afford a \$400 watch when he/she buys a \$35 copy just to feel good. However, if that same person were more aware of the macro-economic effect of his/her purchase of that fake watch or handbag, there might be second thoughts. If the consumer were made aware that the dollars spent on the knock-off actually supported organized crime, child and/or slave labor, and possibly even terrorism, that consumer might consider that there is more to counterfeiting than simply ripping off rich companies like Nike or Gucci. In this sense, like the demand problem we struggle with in the national war on drugs, public awareness and education of the consequences of purchasing activity seems to be the only viable strategy to reduce demand for fakes.

While the losses caused by counterfeiting in monetary terms alone are daunting enough, the threat is not merely an economic crime. Counterfeiting presents as a social problem as well, because the organizations behind counterfeiting operations pay no taxes, obey no laws, support organized crime, contribute to official corruption, often employ child and illegal immigrant (and in some cases, slave) labor and generally have no social conscience (or fear of liability) when it comes to the dangers posed to consumers by the low quality, even dangerous, fake goods they inject into global trade.

In some cases, the threat posed by counterfeiting manifests itself in horrific public health hazards (pharmaceuticals, foodstuffs, spirits, cosmetics, automotive parts and other components where consumer safety is at risk due to substandard counterfeits). In other cases, threats to national security have been investigated, given suspicions that the proceeds of the trade in counterfeit goods funds organized crime and even terrorism.

Trafficking in Fakes in the Era of Globalization

Trafficking in illicit goods includes, but is not limited to counterfeit goods. Many criminal organizations consciously manage risk by diversifying their portfolios of illegal activities, spreading investments and resources across a range of high risk activities, such as the narcotics and arms trades, to lower risk enterprises such as human trafficking, and trade in counterfeit and pirate goods. China is overwhelmingly accepted as the leading manufacturing source for many of the counterfeit goods encountered on the market. Less conspicuous, but with a relatively disproportionate importance, is the role of Thailand, which also has historically been identified as a leading source of fakes around the world.

Part I: China

For many years and for many reasons the People's Republic of China has been a major source of production and hence called the world's manufacturing plant. At the same time, this vast market potential and tremendous production capacity attracts investment from industries that are ever searching for new ways to grow and seeking new markets in which to sell their products. The market also attracts the eyes of intellectual property right owners who intend to protect their IP rights in order to safeguard their market share and position. Counterfeit products, one of the most serious problems faced by many IP owners, has picked up a lot of attention on a worldwide scope and the fight against counterfeiting has been a long-term goal not only for the IP owners but also for the Chinese government.

Why Has Counterfeiting Spread so Widely in China?

The wide spread of counterfeiting is a problem with various causes. These include the traditional Chinese culture having deep roots in the collective Chinese mind, the relatively short history of IP laws in China, and the unbalanced enforcement system.

It is critical to understand a bit of Chinese culture and history. China has a population of more than 1.3 billion people, the largest in the world; it has 56 different nationalities with diversified and interesting cultures; its long history dates back to 2100 B.C. and has experienced four different eras, namely the ancient dynasty (2100 B.C.- 221 B.C.), the Imperial Era (221 B.C. - 1911 A.D.), the Republic of China (1911-1949) and the Peoples Republic of China (1949 - present).

First, Chinese traditional culture does not allow for a monopoly. The culture dominating China for thousands of years and prevailing even currently is Confucianism. Confucianism is a "code of conduct" for life, and it has had a tremendous impact on Chinese government, education, and attitudes toward correct personal behavior and the individual duties to society. One of the spirits encouraged under Confucianism is sharing. Applying that spirit to intellectual property, traditional Chinese ideas do not afford private property rights to so called intellectual property. Chinese culture values sharing, rather than exercising control over others. For centuries, all ideas were owned by the state and China came up with so many of the world's great inventions without the help of patent protection at all. Additionally, Chinese believe that copying is a kind of flattery. They may say, "I like you so I'll copy or follow you."

The second reason is the lack of public awareness of intellectual property laws. China history of protecting IP has only existed for 20 years. There were no IP laws or lawyers before 1980. Not until 1982, 1984 and 1990 did China have its first Trademark Law, Patent Law and Copyright Law respectively. The short history of IP

laws results in the shortage of IP lawyers, educators, specialists, etc. Collectively this leads to the fact that consumers do not feel guilty when buying counterfeit products which fuels a big demand for “nice” counterfeit products. The big demand then draws the efforts of sellers as well as manufacturers to sell and to produce them.

The third reason is the unbalanced enforcement system. China is a vast country both geographically and administratively. This vastness shows itself in administrative management and different areas and levels of government having an inconsistent understanding of laws. There are limited government resources to help with the enforcement efforts. More than that, in some rural areas of China local governments may only have very limited government resources and may also have the problem of local protectionism.

The Battleground is Tough and the Courts are Many

The scope of the counterfeiting problem is tremendous and spans almost every industry. Nearly any type of consumable item can be, and most likely has been counterfeited. More surprising is that some of the counterfeit products even need the expert eye to tell whether it is fake or genuine.

The prominent feature of the Chinese trademark enforcement network is the combination of administrative enforcement and judicial enforcement. Trademark owners can try either system or both of them. The administrative authorities, particularly the local Administrations of Industry and Commerce (AICs), are quite active in their work. Around 18,130 trademark infringement and counterfeiting cases, including 2,451 foreign related cases, were concluded in the first half of the year of 2005 by AICs at all levels throughout the country, which represents a 13.4% and 55.8% increase respectively, compared with the same period in 2004.

Courts have the sole jurisdiction in hearing civil disputes regarding counterfeiting and deciding damages. China has a four-tier court structure, namely the Basic Court, the Intermediate Court, the Higher Court, and the Supreme Court. The Basic Courts can only be trial courts; the other Courts can be both trial and appellate courts. Each Court consists of several functional divisions or chambers, including civil, economic, administrative, and criminal chambers. The competent court for filing an action for trademark infringement involving a foreign party is only the PRC Intermediate Court. However, the Higher Court may also hear the case if the case is of great importance to the relevant provincial economy. From 2000 to November 2004, Chinese courts on a nationwide basis made rulings in 2,171 cases of illegal production of goods.

The PRC Customs Authority (“Customs”) was authorized by the State Council to stop the import and export of any infringing products at the border. Customs agents are located in various parts of China and confiscated infringing products in 1,051 cases in 2004 worth 84.18 million Yuan RMB, which is a 23.8% increase compared to the year before. Of these, there were 1,027 export cases and 24 import cases. Among all

the cases, there were 1,009 trademarks cases, 26 patent cases, and 16 copyright cases. It is noted that the Customs enforcement is dominated by trademark infringement cases and also exporting cases.

Recognizing the serious problem, Customs at all levels in China continues to work more closely on IP protection issues. While strengthening border enforcement, Chinese Customs emphasizes cooperation with other domestic authorities, such as the AIC to combat illegal infringing activities. For example, Guangzhou Customs confiscated counterfeit products bearing the HELLO KITTY mark exported by a Guangzhou company. Upon further investigation, Guangzhou Customs discovered that, despite the seizure the company was still manufacturing the counterfeit products. Guangzhou Customs immediately informed the local AIC and consequently all the infringing products and moulds were confiscated by the AIC.

What is the Goal?

A trademark owner has to consider from the every beginning what sort of final result is most desirable before taking action. Some goals include, forcing the infringer out of the market completely, obtaining a large damage award, or getting the infringer under a royalty bearing license agreement. It is recommended that trademark holders be clear about their purpose in bringing infringers to court because those goals determine the strategy once the legal action is complete.

Who is the defendant?

Investigation of the infringer is critical. The investigation has to be targeted on collecting evidence on infringement but also obtaining knowledge about the infringer. It is important to know as much about the infringer as possible, including, the business profile, main office location, branch office locations, location of sales offices, any lawsuits previously filed against them, and their financial standing. The financial knowledge is important because, for example, if the infringer is a relatively small company with serious financial difficulties, enforcing a court decision for damages may be futile. In that instance, it would be better for the trademark holder to utilize administrative channels to claim protection rather than judicial channels.

Is a Preliminary Injunction Possible?

A preliminary injunction may be issued by the relevant court upon petition if such petition is accompanied by sufficient reasons, a guarantee (similar to a bond in the US) in the full amount the possible damage to the infringer if proven that the injunction was not justified, and evidence showing an immediate and irreparable injury will occur if such injunction is not ordered. The factors considered to determine the amount of guarantee include sales income affected by the injunction, reasonable fees of storage and maintenance of the infringing products, and possible damage to the alleged infringer. A decision shall be issued in written form within 48 hours after the request is filed and can be enforced immediately afterwards through raids and seizure. The alleged party has the right to file a request for review of the decision if

unsatisfied. The decision, however, is valid and the pre-litigation raids continue during the course of review.

The petitioner (i.e. trademark holder) should file a lawsuit within 15 days after the preliminary injunction is ordered. If the petitioner fails to do it in due time, the court shall cease the provisional measures ordered under the injunction. If the applicant does not file the lawsuit on the merits in time or the provisional measures are erroneously ordered, the alleged defendant has the right to claim damages by filing a lawsuit with court against the applicant. Also, the alleged defendant may file a counterclaim in the same lawsuit filed by the applicant for damage suffered.

When carrying out the injunction, the court can use numerous means including attachment, detention of property, attachment of books of account and vouchers, and freezing of assets. Attachment involves placing a seal on the property attached, or the court can order the removal of property to another location. If property is detained, the property is placed in another person's hands for safekeeping. Freezing of assets is normally applied to money or property in a bank.

Some of the statistics on the use of preliminary injunctions in China are interesting. As of August 2003, ten petitions for preliminary injunctions were filed. Of the ten petitions for preliminary injunctions, six involved patent infringements, two involved trademark infringements, and two involved copyright infringements. In terms of petitioners, three cases involved foreign corporations. In terms of outcome, in seven of the ten cases, preliminary injunctions as relief measures were granted and enforced.

Administrative or Court Action?

Both administrative channels and court action can be effective for enforcing IP rights in China. We mention here several competing and alternative reasons to select one over the other as circumstances and goals warrant. The most important factors are set out below.

Official Fees and Costs: Administrative action in general does not incur filing costs and under existing laws and regulations, Chinese administrative authorities are not allowed to charge for their work. Therefore, administrative action can become cost effective. In contrast, the courts charge court fees and other court cost according to the PRC Civil Procedure Law. Other court costs include appraisal fees, bonds, accounting fees, witness transport expenses and subsidies. Court costs may be expensive if the amount in dispute is large, since court filing fees are calculated as a percentage of the plaintiff's claim.

Time to Judgment: It usually takes three to six months for administrative organ to make a decision. In contrast, a court decision will likely take 6 months or more if a foreign party is involved.

Remedy Desired and Damages: The administrative authority handling the matter may order the infringer to immediately stop the infringing act, confiscate and destroy the infringing goods and models and impose a fine. Although the administrative authority may, upon the request of the interested party, mediate the amount of

damages for the infringement of the trademark right, they cannot, like court judges, make damages rulings.

Rights of Appeal: Under the new trademark law as well as other IP laws, the administrative decisions by AICs are all subject to judicial review. The losing party may file the judicial review within 15 days from receipt of the administrative decision. Civil cases shall be handled by two levels of courts, with the court of second instance being the court of last resort. The time provided for appeal is 10 days from receipt of the written decision or judgment.

Oral Hearings: Administrative tribunals are generally not required to convene hearings in an intellectual property case, although, on occasion, such hearings occur. The panel elected to decide the case and review the evidence discusses the case. The parties are often not present. A court hearing, however, is required in a judicial proceeding. The essential procedures include examination of evidence, argument and summation.

Favorable Jurisdiction Issues

As mentioned above, a trademark infringement involving a foreign party can only be brought in the Intermediate Courts. The proper venue is determined by either “personal” jurisdiction or “place” jurisdiction.

The personal jurisdiction refers to the principle of “plaintiff follows defendant.” Cases are brought in the court of the defendant’s domicile or in the jurisdiction where the defendant normally resides should this differ from the place of domicile. If a suit is brought against a business or organization, the courts where the business or organization is located have jurisdiction. Where several defendants have different domiciles or actual residences, the courts where any defendant has a domicile or residence has jurisdiction. The plaintiff may choose to sue among any forum having both venue and jurisdiction, at his/her discretion.

In practice, however, a plaintiff usually is encouraged to avoid the court which has personal jurisdiction due to local protectionism. Place jurisdiction is thus preferred. Under place jurisdiction, the civil proceedings should be instituted at the place where the infringing act takes place. Typically this is where the infringing goods are kept or seized and detained. The place where infringing goods are kept refers to the place where the infringing goods are stored or hidden in large quantities or on regular basis; the place of seizure and detention refers to the place where the counterfeit goods are seized and detained by Customs or AICs according to law.

Calculating Damages

Damages for trademark infringement in China is the illegal income obtained by the infringer, or the loss suffered by the trademark owner, including reasonable expenses for investigating and deterring the infringement. It might be comparatively easy to find out the total sales of the counterfeiting product, but the sales price of the counterfeiting product is most of time lower than that of the genuine product. Therefore, the actual loss suffered by a trademark right holder cannot be adequately

compensated by this illegal income. Meanwhile, and potentially to a trademark owners detriment, this calculation method has already been used in trademark trials in many courts. The relevant judiciary practice has proved that this type of damage calculation is a reasonable damage calculation method fitting in many cases for protecting the rights of trademark owners. Thus, it is harder to obtain damages under the standard of the loss suffered by the trademark owner.

While neither of the aforementioned methods calculates the damage in relation to a reasonable royalty, the royalty can be a viable means of calculating damages. Damages using the royalty theory can range from 1 to 3 times the reasonable royalty. Factors affecting the multiplier of the royalty are the nature, scope, duration, and other parameters of a typical trademark license. When none of the above measures work, the court may decide on damages up to 500,000 Yuan RMB depending on the facts. The sellers who unknowingly sell infringing goods shall be ordered to pay damages if they cannot prove the legitimacy of their goods and the provider of the goods.

For example, in *Honda Motor Company v. Chongqing Lifan Industry Group Co.*, concerning a trademark lawsuit, the Beijing No. 2 Intermediate Court ruled in favor of *Honda Motor Company* by decreeing that the latter must cease from using their mark and pay damages. In the complaint, *Honda Motor Company* demanded damages of more than 12.51 million yuan (about US\$1,157,000.00). However, the court held that the evidence showing the correctness of the calculation of the demanded damages was insufficient and did not agree with much of the argument proffered. The Court then ordered *Chongqing Lifan Industry Group Co.* to pay 1.47 million Yuan (about US\$183,000.00) in damages to *Honda Motor Company*.

Trademark enforcement in China is in its nascent stage due to the short history of IP system. However, after joining the WTO, Chinese government has made progress in IP protection. There are many newly amended laws and regulations which bring IP legislation in China up with international stands. The government has taken effective actions to work with trademark owners or foreign authorities to stop counterfeiting. The number of IP related cases and enforcement actions have increased, as has the amount of fines imposed or number of products confiscated. As China is a vast land with a very large population and very complicated administration system, strategies in different areas and for different targeted infringers may vary widely. In short, trademark owners can and have been regularly successful in enforcing their rights when they have taken into account the vagaries and complexity of Chinese culture and the legal systems available.

Part II: Thailand

The Kingdom of Thailand, with its population of approximately 65 million people, represents a different type of challenge to intellectual property rights (“IPR”) owners. While certainly there has been and remains a large skilled low cost labor force and manufacturing capacity (and equally large demand) for low tech labor intensive soft

goods such as apparel and footwear, Thailand's role in the global counterfeiting trade is evolving. Despite the popular image of carnival-like street markets and vendor stalls throughout Bangkok and other tourist areas overflowing with cheap knockoffs ranging from shirts to sneakers to watches to sunglasses to handbags, the real problem is much more sophisticated than the so-called victimless crime historically tolerated by the average Thai, who would view sales of counterfeit goods as more of a "mom and pop" activity.

Thailand has become more of a specialist producer in several highly developed industries which are supported by domestic economic policy and foreign direct investment, such as for example, in the automotive sector, where Thailand has claimed the title of "the Detroit of Asia." Moreover, Thailand has developed a particular knack for logistics and has become a regional hub for the trans-shipment and export of fakes.

Although Thailand's IP laws are TRIPS-compliant, lingering questions remain about whether Thai law enforcement and policy officials have enough political will to strictly enforce the laws against counterfeiting and piracy. As such, Thailand has remained on the Office of the US Trade Representative's Special 301 Watch List for more than ten years running. Clearly, there is some tolerance for counterfeiting at the retail level in Thailand, as anyone who has ever visited high volume shopping areas such as Patpong, Pratunam, Pantip Plaza or MBK shopping center can attest. The domestic problem arising from tolerance of counterfeits in the market is dwarfed however by Thailand's role in the trans-national trafficking in counterfeit products.

Trans-Shipment Hub

Thailand's geography makes it the ideal trans-shipment hub. Trans-shipment involves shipment of components or finished product from one country (usually China, Malaysia or India) to Thailand where finishing, labeling, repackaging, additional assembly, or warehousing occurs before shipment of the completed product to its final destination. The link between China and Thailand in the global trade in fakes is no accident or coincidence. Although the Kingdom is distinguished from its Southeast Asian neighbors because it has never been colonized by a foreign power, it is beyond argument that much of Thailand's commerce is controlled by Thais with Chinese heritage and ancestors. Second and third generation Chinese Thais (known locally as Teo Chiew) are highly influential in the business sector and public sector. Many have family still living in Hokkien territories of mainland China in the south, and there has always been a vigorous trade in all manner of goods between Thailand and Southern China. Thailand controls the only land route from China to Singapore on the north-south axis, which has always assured Thailand of having a strategic position in many contexts.

Likewise, the link to India arises from family migration (many Thai-Sikh families are dominant in the property and retail markets in Thailand), and geography, as the Kingdom is also perfectly centrally located between India and China on the east-west axis (hence “Indochina”). The Kingdom has thousands of miles of open and porous land borders with four neighboring countries, Burma (Myanmar), Cambodia, Laos and Malaysia. Thailand also has three major international airports, including Asia’s largest to date (the new Suvarnabhumi Airport in Bangkok), and a number of busy deep sea ports. The Mekong River delta system and other large rivers winding through its territory make for a smuggler’s paradise that has been exploited by criminals and smugglers for centuries.



Map © The CIA World Factbook

The goal of trans-shipment through the Kingdom is to take advantage of Thailand’s extensive framework of bilateral and multi-lateral trade agreements to obtain a lower duty in trans-national trade, and disguise the origin of goods to avoid consequences which could include dumping assessments, Customs interdiction, harsh penalties for false or misleading declaration of origin, higher duties, detection of infringing goods, etc. Moreover, Thailand’s economy is highly dependent on exports, so government policy has generally been fairly lenient in respect of intercepting outbound shipments of goods.

Worse, low paid Customs officials are a too often a target for grease payments from corrupt forwarding agents and export operations.

Chasing Ghosts: Front Companies in Thailand

The ease of establishing corporate entities in the Kingdom is also a contributing factor. Many foreign, particularly Chinese, Russian, Indian, German and British, nationals with dubious business objectives (and links to criminal organizations) establish trading companies in the Kingdom to facilitate trade in fake goods. These operations require minimal capitalization, no insurance or bonding, and often employ Thai scapegoats or aliases as nominee directors or shareholders to be liable in the unlikely event that Thai law enforcement officials investigate the bona fides of these exporters. If there ever is an inquiry from law enforcement about a suspect shipment, it is quite straightforward to simply fold up the company, liquidate the few assets on hand and disappear, only to reappear in another guise a few weeks later. Front companies like this are virtual ghosts, and are usually untraceable. Even if traced, the civil justice system in Thailand presents obstacles in terms of cost-effectively collecting judgment assets from a company found to have been engaged in international trade of fake goods. The net effect has been to firmly establish Thailand as a global logistics and trans-shipment hub in the trade of fake goods.

Data from European Union Customs agencies has demonstrated that the number one source of fake goods seized by Customs agents in Europe is not China, but instead, its smaller neighbor to the south, Thailand [citation and elaboration on stats]. As such, Thailand presents as a disproportionately large challenge to law enforcement officials around the world. But as discussed below, this outsized challenge also presents opportunities for law enforcement and IPR owners to make a big dent in the global trade of fakes by focusing on the regional hubs, or “pinch points”, in the flow of these goods.

Strategies to Suppress Counterfeiting: Thailand as a Pinch Point in the Flow of Fake Goods

The challenges confronting law enforcement and IPR owners in detecting and interdicting shipments of counterfeit goods in the era of globalization are daunting. The sheer volume of international trade historically made it physically impossible for law enforcement officials to inspect, let alone seize, any significant percentage of the overall volume of trade in fakes. Moreover, priorities and resources are focused more on what is justifiably seen as the more important problems at the border: security, weapons trafficking, illegal immigration, narcotics smuggling, etc. Technology, particularly the internet, has facilitated trade in fakes by quickly and inexpensively matching willing sellers and buyers, who take calculated risks (and who take care to

minimize the risks) of detection of the transactions by law enforcement.

No one company can go it alone when it comes to meaningful enforcement against counterfeiting. Nor can any one government acting alone make any significant progress in suppressing the trade in fakes, although law, policy and the political will to enforce the law does go a long way. However, recent experience suggests that models based on industry cooperation, sharing of costs and intelligence, public-private sector partnerships, and international collaboration between law enforcement agencies, together with more and better use of technology and networking can have a dramatic impact on the global problem. These models are derived essentially from the need to fight fire with fire. The organized criminal syndicates involved in counterfeiting employ the same tactics to make easy profits from the trade in fakes.

Fighting Fire with Fire

The syndicates and traffickers certainly cooperate and network. They appeal to the public sector for protection of their activities through corrupt bribery payments. They employ the latest high tech gadgetry to facilitate trade. Languages, borders, laws, regulations, technology, logistics- none of these factors are seen by traffickers as show-stoppers. Instead, the traffickers view such obstacles as opportunities, a means to add value, for by circumventing such obstacles quickly, the syndicates may gain a competitive advantage and charge higher prices for the goods in the flow of trade. Moreover, the traffickers do not copy only one brand, they generally copy all of the dominant “hot” brands in each industry sector. It is not unusual to find a counterfeiting operation trading in fake Levi Strauss, Calvin Klein, Dickies, Wrangler and/or Ecko branded jeans all at the same time, or trading in mixed batches of fake Viagra®, Cialis® and Levitra®, the three leading branded erectile dysfunction drugs. It would seem unthinkable for natural competitors such as Pfizer, Eli Lilly and Glaxo Smithkline (GSK) to ever cooperate on matters of commercial importance, and in many jurisdictions, anti-collusion or competition laws create tension hindering any effort for competitors to cooperate to solve an industry-wide problem. But to truly fight fire with fire, industry cooperation is needed. This type of cooperation allows for better use of shared resources, technology, networks, intelligence and support of law enforcement.

Counterfeit products, particularly in the automotive sector, pose serious risks to consumers, owing to the lack of quality assurance. When a consumer sees a branded good in the market, the consumer expects intuitively that the branded product is backed by the brandowner’s reputation for consistency, quality, and safety. Counterfeiting tends to destroy consumers’ trust in brands because the notion of guaranteed quality and safety is destroyed. In the case of the automotive market, the failure of fake replacement parts that are passed off as legitimate parts affects the reputation of the manufacturers, dealers, and service centers. Counterfeits truly present a lose-lose proposition: the customer is ultimately dissatisfied, and possibly

faces threats to his/her personal safety, while brandowners' good will suffers and resources that could be directed towards R&D are instead consumed in prosecuting counterfeiters.

With the coming introduction in Thailand of a new Product Liability Law, rights holders face the new threat of potential product liability (which allows for punitive damages and class actions) in the event that the rights holder is found to have been negligent in failing to police the market to eliminate/suppress counterfeit goods.



In a 2001 California Superior Court case, *Lynn v. Serono, Inc.*, Serono, Inc., a Swiss biotechnology company, was forced to settle with two American consumers after they sued the company for damages arising from ingestion of counterfeit Serostim®, a drug prescribed to ameliorate cachexia, a symptom of HIV/AIDS commonly referred to as

“wasting.” We believe this represents a new strategy for plaintiffs’ lawyers in product liability tort actions. In their claim, the plaintiffs stated that Serono was or should have been aware of the presence of counterfeits in its distribution chain and should have taken more aggressive steps to investigate the source of the counterfeits and eliminate the fakes from the market. One can intuitively see why Serono was targeted by the plaintiffs’ lawyer. Faced with clients who had genuinely suffered damages as a result of ingestion of the fakes, who could the lawyer have sued? The counterfeiter? Since the counterfeiter could probably never have been identified with any confidence, operating out of some concealed laboratory in Asia, it was only logical for the lawyer to train sights on Serono, in the absence of any other viable defendant.



Mercedes Benz, BMW accessories seized by DSI

Thailand, a country obviously much smaller than China, nevertheless presents a disproportionately large challenge to IP rights owners because of its role as a manufacturing and export hub for fakes. Thai law enforcement and Customs have responded to the calls for more effective action against the trade in fake goods, particularly in the automotive sector. For example, in October of 2005, an elite Thai

law enforcement unit, the Department of Special Investigation or “DSI”, seized some 50,000 counterfeit automotive parts and accessories bearing unauthorized trademarks of Mercedes Benz, Chevrolet, Honda, Saturn, and BMW. DSI officials estimated that the seizure of parts and equipment was valued at more than one billion Thai baht (over USD \$25 million). The raid was one of the largest of its kind in Thailand’s history of intellectual property

enforcement.²

The October 2005 raid also uncovered more than 50 operations using signage and trademarks of DaimlerChrysler so as to have customers believe that they were among the network of authorized dealers and service centers when in fact the operations had no commercial relationship with the company. This unauthorized use of trademarks presents just as much risk to the consumer as the trade in counterfeit parts, because, again, there is no guarantee of quality in the provision of services by unauthorized dealers.



Yamaha Mio®



Infringing copy bike: Typhoon



Fakes at the infringer's factory

Another recent series of raids by DSI resulted in the seizure of nearly 1100 fully assembled motorcycles worth more than \$1.2 million from a Malaysian-owned factory in southern Thailand. The motorcycles were seized under the authority of the Thai Patent Act because they were slavish copies of patented Yamaha designs and inventions. In fact, the motorcycles were virtually indistinguishable and many of the parts were completely interchangeable between them.

Copying and infringement on the scale of the DaimlerChrysler and Yamaha cases discussed above tends to adversely impact Thailand's ability to attract R&D operations and foreign direct investment. What investors seek, and what high tech ventures need, is a level of security and confidence that the resources devoted to innovation and creativity will be protected so that an adequate return on such investments is possible.

MOU Between Royal Thai Customs and Private Sector: A Successful Model

As an example of how such a strategy based on cooperation can significantly change the dynamic of the counterfeit trade, in September 2003 Royal Thai Customs signed a Memorandum of Understanding ("MOU") with private sector IPR owners and several of the local legal representatives. The purpose of the MOU was to spell out the needs and expectations of the private sector and the Customs department and to pledge mutual support and cooperation. As a result, IPR owners have seen more Customs

² "Fake Car-Parts Raid Highlights IP Issue." *The Bangkok Post* 28 October 2005.

seizures in Thailand in the last three years than they had seen in the last thirty years combined.

The MOU had as its centerpiece a pledge of 24/7/365 support by legal representatives of IPR owners to provide intelligence, profiling of known or suspected traders involved in counterfeiting, testimony, product training, product identification and documentary support to allow Royal Thai Customs to interdict suspect shipments. In exchange, cumbersome and impractical procedures as codified in the formal regulations were relaxed and streamlined so that IPR owners would not be required *ab initio* to post a bond every time a seizure was made.

The net effect is that seizures of finished and unfinished goods entering into the Kingdom, mostly sourced from China, have rapidly escalated. The benefit has been four-fold.

1. IPR owners are enthusiastic about the efforts of Customs because they are at last seeing a better return on their investment of limited anti-counterfeiting resources. Instead of spending thousands of dollars to seize hundreds of products in one-off police raids, the IPR owners are now seeing thousands of products seized for a cost of a few hundred dollars in a more systematic program, a turnabout that has been very well-received indeed.
2. There is a higher level of systemic deterrence arising from the actions of Thai Customs, because fines imposed by Customs against importers of fakes (up to four times the value of the genuine branded items) are generally much more substantial than criminal fines imposed by Thailand's specialized Intellectual Property & International Trade Court, capped by legislation at 400,000 Baht (approximately US\$10,000) per conviction.
3. The domestic market in Thailand is seeing the positive effects of these seizures, and this has created a certain level of comfort for some high-end brand owners to move commercial operations into Thailand's retail and industrial sectors, allowing Thailand to move toward goals of becoming a "Fashion Capital of Asia", and/or "Detroit of Asia" aspirations that are actually well within reach.
4. Lastly, because many of the goods seized were ultimately designated for re-export to other markets such as Dubai, South Africa, Mexico, Australia, and Eastern Europe via Thailand's role as a hub for trans-shipment, these seizures of Chinese produced fakes have disrupted the flow of fakes to other downstream markets.



Thailand Customs Fake Goods Destruction Ceremony © Tilleke & Gibbins International Ltd. 2005

Better still, the Customs seizures have allowed IPR owners to develop a better idea of where the goods are coming from, who is making them, who is importing them. In other words the quantity and the quality of intelligence about the global distribution of fakes are improving significantly. New ventures, such as Factory Watch (www.factorywatch.net) in southern California, with the potential to be the CIA of IPR protection, have attempted to fill the intelligence void by managing data and creating communities for law enforcement personnel, private investigators, IPR owners and legal representatives to exchange and analyze intelligence. Finally, law enforcement officials are getting the support, resources and better data to improve the analysis of the big picture.

Therefore, many analysts agree that future progress is best assured by following the private sector-public sector industry cooperation model. The old adage of “think globally, act locally” has no better applicability than to the problem of global trade in counterfeits. International flows of fakes must be carefully monitored on a macro-economic scale so that new and different pinch points like Thailand are identified and exploited. Raw intelligence and analysis of trends will continue to improve as dominant industry players cooperate and as the network collaborates to keep abreast of and adapt to new techniques employed by the counterfeiters. Thailand, as a unique pinch point in the flow of fake goods around the world, represents a terrific opportunity for IPR owners to get more mileage out of a limited budget. The bottom line is even if Thailand is not considered a major commercial market for some products, there is a good chance that fakes that are found in other downstream major markets have had some connection to Thailand upstream. If resources are dedicated to knock out the upstream distribution now, IPR owners will see dividends in the downstream major markets for years to come.